



17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

MORGAN HILL

FINANCE AND AUDIT COMMITTEE

Morgan Hill Civic Center West Conference Room 17555 Peak Avenue Morgan Hill, California	Chair Committee Member Committee Member Staff: City Manager Finance Director Assistant Finance Director	Mike Roorda Dennis Kennedy Greg Sellers J. Edward Tewes Jack Dilles Tina Reza
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SPECIAL MEETING

Monday, July 14, 2003

MINUTES

8:00 A.M.

CALL TO ORDER

Chair Roorda and Committee Members Sellers & Kennedy;
Staff: Dilles & Reza

DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

BUSINESS:

1. **Approval of minutes for June 25, 2003**

The minutes for June 25, 2003, were approved.

2. **Auditor Selection Process (Discussion)**

Staff indicated to the Committee that the contract with the current audit firm, Caporicci & Larson, will be expiring in the near future following the audit of the 2002/03 fiscal year. The City will need to make a decision regarding selection of an audit firm for future years. Committee Member Kennedy asked how many weeks the auditors work on the City audit and staff responded 3 weeks. Chair Roorda indicated that he believes it is important to maximize scrutiny by the City's independent auditors and that a periodic fresh set of eyes helps accomplish this objective. Committee Member Sellers indicated that the City is obliged to go through a request for proposals process because of the budgetary situation. If the City could save dollars through this process, then we should move in that direction. Committee members agreed that there is no objection to the current firm submitting a bid. Committee Member Kennedy asked staff to check the City's current policy concerning auditor rotation and staff indicated that they would do so. Chair Roorda also asked that he, as City Treasurer, meet with the auditors. In addition, Committee Members indicated that they would like to see the auditors make a short presentation to the City Council at the conclusion of the audit.

3. **Update on State Budget (Discussion)**

Staff updated the Committee as to the status of the State budget process, which is still to be resolved. Chair Roorda indicated that the City's income stream is dependent upon the whims of the State as it battles its budgetary problems. Committee Member Sellers raised the subject of proposed AB 1221, which would swap half of local sales tax dollars currently received for an equivalent amount of property taxes. Committee Member Kennedy asked, putting potential constitutional protections aside, would AB 1221 be in the best interests of the City? City Manager Tewes responded that it is not clear that growth in these tax revenues is allowed.

4. **Policy Statement Concerning Budget Structural Issues (Discussion)**

Staff indicated that the Committee wanted to continue this topic. Committee Member Sellers stated that the Community & Cultural Center and planned Aquatics Center made people more anxious about the City's financial position, but that this is an opportunity to make the aquatics program revenue neutral; that is, to have revenues cover costs. He is comfortable that the City is in a strong financial position no matter what happens; Morgan Hill is in better financial shape than other cities, so Morgan Hill has more options. Committee member Sellers indicated that a new revenue source is a long-term issue and that many factors may affect this issue, such as economic development. Committee Member Kennedy indicated that this Committee needs to give the Economic development committee and City Council guidelines for allocating the deficit between revenue growth and expenditure cuts. He indicated that it is an easier step to discuss expanding the revenue base than it is to propose new revenue sources. To gauge a measure of the issue, Chair Roorda and Committee Member Sellers indicated that it

would be useful to establish a base line so that, over the next 3 to 5 years, we could see how much revenue growth would be attributable to expanding the revenue base and how much might need to be raised through new sources. Committee Member Kennedy stated he liked this idea and that it could highlight the amount of revenues raised through expanding business. Chair Roorda stated that he sees growth in new homes that must add to the City's assessed valuation and therefore to property taxes received by the City. Staff responded that County staff told him that assessed valuation in Morgan Hill had increased by 7.8% for the latest year. Committee Member Kennedy moved, and Committee Member Sellers seconded, to initiate a policy stating that it is good to broaden the tax base for all taxes, and the motion was approved unanimously. Staff was directed to draft appropriate language and bring it back to the Committee for further discussion. Following that, Committee member Sellers or Committee member Kennedy could bring this policy to the City Council. Committee Member Kennedy indicated that sales tax revenue is the key to expanding the revenue base. Staff was asked to bring back the basics for a position paper for discussion at the next Committee meeting.

5. **Preliminary Financial and Investment Report for June 2003**

Due to time limitations, this item was not discussed.

6. **Future Agenda Items (Discussion)**

None

ADJOURNMENT: 9:00A.M.

NOTICE

AMERICANS WITH DISABILITY ACT (ADA)

The City of Morgan Hill complies with the Americans with Disability Act (ADA) and will provide reasonable accommodation to individuals with disabilities to ensure equal access to all facilities, programs and services offered by the City.

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